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ABSTRACT

This study presents a typology for foundations to use in selecting potential revenue sources, assuming that foundations function as the comprehensive philanthropic vehicle for institutions. Data come from the author's higher education fundraising experience and a national survey of public colleges and universities and their institutionally related foundations. The study aggregates institutional and foundation fundraising budgets, fundraising results, and related information. It defines amounts raised and reported in accord with industry standards as fundraising productivity, expressing the ratio between fundraising costs and funds raised as the fundraising cost index. The study addresses how much it costs to raise money; how much more it costs to raise more money; and how college and university foundations can increase budgets to support increased fundraising. Chapters include: "Introduction"; "Mapping the Territory"; "How Much (More) Does it Cost to Raise (More) Money?" (startup, emerging, and mature fundraising programs); "Mature Fundraising Operations"; "Implications for Increasing Fundraising Budgets"; "Summary Thoughts on Fundraising Budget Development"; "Pros and Cons of Key Revenue Sources" (institutional support, unrestricted gifts endowment management fees, income on daily cash balances, and administrative fee on gifts); "Finding the Right Mix"; "The Fundraising Cost Index"; and "Fundraising Costs as Investments." Appended are survey data and responding institutions. (SM)

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by Royster C. Hedgepeth

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Introduction

Successful fund-raising costs money. Colleges and universities that seek quantum increases in fund-raising productivity must also increase investments in their fund-raising budgets if they are to achieve these goals.

Public colleges and universities, pressured like private institutions to boost their fund-raising results, are often unable to support larger fund-raising budgets through public funding alone. For them, the gap between expectations and resources makes imperative the development of new revenue sources to meet the additional costs. Addressing this need highlights the importance of developing the public college or university's institutionally related foundation to carry out effective fund-raising and asset management.

Although it is true that public colleges and universities often have philanthropic programs that involve both the institution and the foundation in the fund-raising process, this study assumes that the foundation should function as the comprehensive philanthropic vehicle for the institution.

This study suggests that, over time and in most cases, the foundation should both plan and implement fund-raising programs and manage philanthropic assets. In the long term, the college or university foundation is best positioned for successful fund-raising because it can generate private revenues to support fund-raising, maintain a separation between private and public dollars, protect donors' rights, and provide maximum benefit to the institution.

For purposes of analysis and discussion, this study aggregates institutional and foundation fund-raising budgets, fund-raising results and related information. It defines the amounts raised and reported in accord with industry standards as fund-raising productivity. It expresses the ratio between fund-raising costs and funds raised as the Fund-Raising Cost Index (FRCI). It does not, however, identify the components of these costs nor specify a formula for calculating them, relying instead on the costs reported by the participating institutions.

Regardless of the mix of institutional and foundation fund-raising responsibilities and budgets, the conclusions and implications of this study transcend the differences. Foundations and institutions that intend to increase their fund-raising productivity and maintain ever-greater accountability for management and use of private resources should take a comprehensive view of the philanthropic enterprise. Fund-raising is about more than asking for the gift. It is also about identifying prospective donors and cultivating them before solicitation. And it is also about stewarding their gifts for the maximum benefit of the institution.

This study addresses these questions: How much does it cost to raise money? How much more will it cost to raise more money? How can college and university foundations increase budgets to support increased fund-raising? The study presents and discusses findings from a survey of public colleges and universities and their institutionally related foundations.

While the answers predictably vary from foundation to foundation, the study provides a framework within which any individual institution or foundation can answer the questions and determine how the foundation can best fund increased fund-raising costs. The study provides an overview of 20 sources of potential revenue for fund-raising budgets and describes the pros and cons of the most productive revenue sources.

The study presents a typology for foundations to use in selecting potential revenue sources. Based on the size of their budgets for fund-raising, their fund-raising productivity, and the size of their endowment, it categorizes foundations as:

- Start-up operations with small fund-raising budgets, small endowments, and a minimal or very recent history of organized fund-raising activity.
- Emerging operations with intermediate-sized budgets, small or modest endowments, and more aggressive, though usually relatively recent, fund-raising activity.
- Mature operations with relatively large budgets and endowments, histories of successful fund-raising, and aggressive efforts to continue to increase the amount of funds raised.

Institutionally related foundations will be able to place themselves within this framework and draw guidance from the parameters for fund-raising budgets that are most related to their foundation type. This study proposes models to guide foundations that are seeking immediate improvement in fund-raising productivity. It also offers guidance to foundations by considering longer-term revenue options that will become available to them as they raise more money and manage larger assets.

And finally, the study describes the challenges ahead for funding fund-raising at institutionally related foundations. Given the demand curve for fund-raising and the complex relationships involved in many of the funding mechanisms, the paper suggests how to go about selecting and using multiple funding sources.

The material in this study grows out of the author's 24 years of college and university fund-raising—including management of institutionally related foundations—and is based on data from a national survey that both informs and supports it. The study has been sponsored by the Association of Governing Boards of Universities and Colleges (AGB) and the Council for Advancement and Support of Education (CASE), with a grant from the Society for Institutionally Related Foundations (SIRF). The author is grateful to AGB, CASE, and SIRF for their generous support, patience, and insight. Rick Legon of AGB, Eric Wentworth of CASE, and the leaders of SIRF provided invaluable guidance and counsel in the conduct of study and in its refinements. Jeanne Armstrong supplied superb research skills and disciplined phone interviews that yielded the data that undergirds this paper. Eric Wentworth edited the manuscript.

Mapping the Territory

Every college- or university-related foundation is unique in that it serves a particular institution. Much of a foundation's purpose and many of its values have been shaped by the mission and culture of the institution the foundation supports.

Institutionally related foundations differ markedly in their size, scope, and responsibilities. At one extreme, some serve as banks to separate private funds from state funds, and limit their activity to managing these private assets and allocating and disbursing a portion of the returns these assets generate. At the other extreme are foundations that both manage assets and engage in a full range of fund-raising activities, even undertaking entrepreneurial and business pursuits.

In carrying out their philanthropic agendas, many foundations are simply functional components of their institutions while others operate quite autonomously, albeit in support of the institutions to which they are related. Questions of foundation autonomy and independence are important because it is the foundation's separate status that maintains the distinction between public and private support and protects donors' rights and confidentiality.

For any foundation, finding the balance between autonomy and service to the institution is critical. Foundations should remind themselves that they exist to serve the institution to which they are related and cannot afford to let concerns about autonomy inhibit their ability to raise funds and manage philanthropic assets in support of the institution's mission.

Foundations exist to serve the institution to which they are related and cannot afford to let concerns about autonomy inhibit their ability to raise funds and manage philanthropic assets in support of the institution's mission.

Some foundations have fund-raising budgets of tens of thousands of dollars while others have budgets totaling several millions of dollars.

Some foundations may be staffed by employees of the institution or by part-timers or volunteers. Others may employ hundreds of people on their own payrolls.

Some foundations may be relatively passive, accepting and managing whatever private funds come their way, while others may be very aggressive in their fund-raising efforts.

Most foundations operate somewhere between these various extremes. At the heart of the matter, they are bound together by their participation in the philanthropic endeavor—

seeking to procure, manage, and strengthen private support to benefit the colleges or universities they serve.

While college- or university-related foundations in the aggregate may serve a large number of objectives, five common purposes shape their core values and missions. These are:

- to secure private gifts as a resource distinct from state and institutional resources;
- to enlist and use key volunteers in philanthropic endeavors on behalf of the institution;
- to engage prospective donors in the institution's dreams and aspirations, and steward their investments of time and money;
- to provide a vehicle for important college or university activities, ventures, and service, such as acquiring real estate by gift or purchase that the institution itself cannot pursue (at least not in a timely basis) because of statutory or regulatory restrictions; and
- to strengthen the institution's public image and create an environment conducive to philanthropic support.

How Much (More) Does It Cost to Raise (More) Money?

The Survey Respondents

To look for significant patterns, the study grouped the 47 survey respondents according to endowment size, fund-raising budget, and funds raised. Three groupings allowed comparison of the six respondents with the smallest endowments and fund-raising budgets, the ten respondents in the middle range of endowments and fund-raising budgets, and the six respondents with the largest endowments and fund-raising budgets. In addition, the 16 respondents representing the top one-third of the sample in these categories were analyzed to provide a framework for recommendations based on best practices. The respondents reported fund-raising budgets based on their own calculations. It was beyond the scope of this study to specify what cost components should be counted—or how.

The six respondents who raised the fewest dollars had five of the six smallest fund-raising budgets. While the relationship between fund-raising budgets and funds raised does not track through the sample with 100 percent accuracy, the relationship is clear and unmistakable. To raise more money, you have to spend more money!

Start-Up Fund-Raising Programs

Foundations with the lowest fund-raising totals had five of the six smallest endowments and five of the six lowest budgets for fund-raising. The three primary sources of support for fund-raising budgets were:

- institutional support, with foundation staff on the institution's payroll rather than the foundation's;
- unrestricted gifts; and
- funds provided through a separate alumni organization.

For both foundation and institutional employees, fund-raising was often a part-time responsibility. The foundation function seemed more ancillary than integral to the institution's operations and governance. Often, the foundation's operation was not a matter of great importance to the college or university or its president, and institutional priorities were not necessarily reflected in the fund-raising goals that the foundation established.

Five of the six start-up programs reported some campaign activity. Several reported that their foundations had been formed to solicit scholarship support through campaigns. Campaigns are specific sets of fund-raising activities performed within set time frames to produce quantum increases in fund-raising productivity—for instance, seeking to double (or more) fund-raising productivity in a five- to six-year period.

Most of the respondents with start-up programs were at community colleges, and they cited dependence on local needs and resources as largely determining their fund-raising activities and volunteer involvement. Those in very rural areas saw themselves as having less fund-raising potential than their peers in larger, metropolitan areas.

Five of the six reported either that the institution had delegated fund-raising to the foundation or that the foundation had historically controlled whatever fund-raising activity occurred. Significant foundation fund-raising activity was relatively recent.

All six reported little to modest involvement by the institution's chief executive in setting the budget of the foundation. The foundation budget tended to be set by the foundation's board of directors.

Emerging Fund-Raising Programs

The ten respondents in the middle of the survey sample reported funds raised during 1997 of $3.9 million to $8.5 million, endowments of $11 million to $12 million, and fund-raising budgets of $85,000 to $3 million. A total of eight of the ten had some campaign experience, with five currently involved in a campaign.

These ten respondents had structures and functions that varied across the full range of potential activity and responsibilities. Four reported that the institution directed fund-raising, four reported joint institution-foundation responsibility, and two reported that the function was delegated to the foundation. Four of the foundations both raised money and managed endowments, two reported that the institution raised the money and the foundation managed it, and four reported other paradigms. Institutional chief executives had moderate involvement in setting the foundation budget. The

involvement of foundation boards of directors in setting the foundation budget was quite uneven: in some cases slight, in others extensive.

The middle ten used the greatest number of sources of support for fund-raising budgets, with at least one-third using seven or more different budget sources. The balance between institutional and foundation support of fund-raising budgets was uneven in this group and yielded no discernible trends or patterns.

Mature Fund-Raising Programs

The six respondents with the largest fund-raising totals had the six largest fund-raising budgets and five of the six largest endowments. When surveyed, one was in its first campaign, one had just completed a successful campaign, and three were in their second campaigns.

One university had no institutionally based foundation (though its law school and its system office both had foundations), and one foundation was the university's sole organization for fund-raising and operated with no institutional support. The remaining respondents used both institutional and foundation resources to support fund-raising budgets, and the foundations served both fund-raising and asset management functions. For all five institutions with foundations, there was a very high degree of foundation-institution interaction in setting fund-raising priorities to support the institution's mission. The foundations also reported a high degree of communication and collaboration with the university administration as fund-raising programs were implemented.

The six foundations (and institutions) with the largest fund-raising totals tended to rely on significantly fewer sources of revenue to support the fund-raising budget. The five foundations at those universities were largely self-supporting. Their budgets were supported primarily through:

- endowment management fees: Each year when endowment distributions were made, the foundation collected an administrative management fee, usually 0.5 to 1 percent of the market value of the endowment.
- contracts for services with the institution: The foundation entered a contractual relationship with the university to deliver specified fund-raising and related services in return for financial support from the university.
- incomes on daily cash balances: Gift funds being held by the foundation pending transfer to the benefited program were invested short-term, and the income was used to support the foundation's budget.

Three of the institutions' foundations reported a stable pattern of budget funding, while two reported that they were looking to increased reliance on foundation-generated resources for future budgets. All five institutionally related foundations reported a high degree of involvement by the institution's chief executive in the budgetary affairs of the foundation and active input and decision making by the foundation's board of directors.

Mature Fund-Raising Operations: Lessons from an Expanded Sample

Up to this point, the study has looked at the six smallest and six largest programs in the survey sample—and at the ten mid-sized programs in the middle of the sample.

Expanding the cohort of mature programs by looking at the top 16 in terms of fund-raising productivity provides additional insight.

The top 16 respondents in terms of fund-raising productivity have 16 of the 17 largest endowments and 16 of the 21 largest fund-raising budgets—again, using their own cost determinations as a basis. These 16 institutions raise from $11.2 million to $134 million per year. Their endowments range from $30 million to $996 million. They report fund-raising cost indices (FRCIs) from four cents to 25 cents (0.04 to 0.25) to raise a dollar, with a median FRCI of 8.5 cents (0.085) to raise a dollar.

These 16 fund-raising programs use only ten of the 20 sources of fund-raising budget revenue identified in the survey. Of these ten sources, only five are used by three or more institutions. These five are:

- endowment management fees,
- income on daily cash balances,
- institutional support,
- unrestricted gifts, and
- management fees (taxes on incoming gifts).

A total of 11 of the 16 use three or fewer sources of funding to pay for the costs of fund-raising.

An assessment of this expanded group of 16 respondents with mature programs provides useful guidance for emerging programs. The lessons include:

- Achieving quantum increases in fund-raising requires a high degree of foundation and institutional commitment and collaboration.
- The more clearly roles and responsibilities are defined in advance, the better expectations and budgeting needs can be articulated.
- Until fund-raising productivity and endowment balances reach significant levels, increases for fund-raising budgets will rely largely on institutional sources.
- Decision makers should make every effort to keep the funding model simple so that top executives and staff can devote the maximum amount of their time to fund-raising.
- For the long term, only the five sources of revenue listed above offer the potential to support quantum increases in fund-raising budgets.
- Maintaining an effective balance between a foundation's autonomy and its operational integration with the institution requires ongoing monitoring and dialogue.

In addition to serving as models for organizational function and budgeting, mature programs also provide primary examples for volunteer development and donor stewardship that are essential for start-up and emerging fund-raising programs to develop private support.

Implications for Increasing Fund-Raising Budgets

Successful fund-raising requires, first and foremost, that the institution and its related foundation define their respective missions, roles, and responsibilities.

These definitions will significantly impact the size of the fund-raising budget and the sources by which it is funded. The size and scope of the foundation's activities and the balance between institutional and foundation roles will determine the level of staffing and operating budget needed and set the parameters for the fund-raising operation.

The top 16 foundations have a FRCI indicting that it costs between four cents and 25 cents (.04 and .25) to raise a dollar. While colleges and universities may be able to realize individual economies to raise more money on existing budgets, long-term gains require added budget revenues. Using the top 16 as a guide, colleges and schools can expect to add between $400,000 and $2.5 million to their fund-raising budgets for every $10 million in new revenues.

For start-up programs, budget development is constrained because the foundations have neither large endowments nor significant daily cash balances from which to glean operating support. Start-up foundations often have less clarity of definition in terms of fund-raising roles and responsibilities. The division of fund-raising responsibilities between foundations and their institutions is often vague. Start-up programs often need to answer specific operational questions to prepare for increased fund-raising. Will the foundation raise money? Manage money? Provide fund-raising support services? Involve significant numbers of volunteers? Carry out other significant activities?

Opinions vary widely concerning functions for which the start-up foundation should be responsible. Some manage the full range of fund-raising activities. Other start-ups serve only as passive, asset-managing "banks." For many, responsibilities fall along a continuum between these extremes.

For start-up and emerging programs, several guidelines emerge from the survey data:

- The most effective foundations should be committed to the institution's mission and support its objectives, rather than trying to develop a separate or competing agenda.
- The foundation's purpose should be well defined from the beginning and have the support of both the institution and the volunteer leaders.
- The institution's chief executive should be supportive of fund-raising and of the role of the foundation—in that order. Having an institutionally related foundation does not ensure successful fund-raising, but having a non-supportive chief executive will definitely limit fund-raising potential.
- Successful fund-raising requires boards of committed volunteers who are appropriately oriented to their fund-raising responsibilities.

• The strategy and timetable for developing the fund-raising program should be clearly defined and supported from the beginning. Fund-raising budgets for start-up foundations will rely heavily on institutional support, but over time and as fund-raising succeeds, they will develop strength from other revenue sources.

Emerging fund-raising programs will rely increasingly on multiple sources of funding to support foundation operations. This can compel foundation executives to consume extraordinary amounts of time trying to identify, generate, and manage sufficient revenues for growing fund-raising budgets. Such demands seriously curtail their ability to focus on fund-raising and fund-raising management. Thus, for emerging programs in particular, developing simplicity and predictability in funding operating budgets is critically important.

As one might expect, the most mature foundations appear to enjoy the most stable funding patterns. Yet even their executives confront relentless demands for increased fund-raising productivity and must struggle to find support for larger fund-raising budgets.

Because it takes money to raise money, and it takes more money to raise more money, senior foundation executives will always be working to develop larger fund-raising budgets. A high degree of institutional and foundation board understanding of funding sources, and a joint commitment to keep the funding formula simple, will help minimize the time they must spend on this necessary pursuit and maximize the time available for the principal activity: raising money.

Some Summary Points on Fund-Raising Budget Development

Three key findings will influence fund-raising budget development and discussion about its funding, regardless of whether the foundation is start-up, emerging, or mature.

• Colleges, universities, and their institutionally related foundations express great aspirations for fund-raising results but have difficulty funding increased fund-raising budgets in a systematic way.

• Only 7 percent of the survey respondents' fund-raising programs rely on a single source of funding for the fund-raising budget, and 70 percent of the respondents' programs rely on three or more sources.

• The larger the endowment and fund-raising productivity, the greater the opportunities for tapping revenue sources other than institutional support.

Start-up programs must rely heavily on institutional funds because they have neither large endowments nor cash balances to generate revenues for their budgets. Institutions that must support start-up programs should understand that up-front costs may be considerable, but so will potential returns on these investments.

Start-up programs should not rely entirely on institutional resources to cover fund-raising costs. At the same time, they should try to minimize reliance on unrestricted gifts, since effective stewardship of these early gifts—if they are used for high-profile institutional purposes—can strengthen relationships with donors and lead to major gifts in the future from them or their families or friends.

As the start-up program grows, the need for non-institutional budget revenues will also grow. The more quickly and cleanly that institution and foundation can clarify their roles and responsibilities, the more quickly start-up programs will gain fund-raising effectiveness.

Most of the surveyed foundations and institutions with mature programs expressed a strong preference for using noninstitutional revenues to build their programs. Yet they would be hard-pressed to increase their fund-raising budgets using only noninstitutional funds.

Mature foundations that use institutional funds advocated the use of a formal agreement or contract with the institution to guide the financial relationship. Such arrangements are important in preserving the autonomy that is important to healthy foundation operations. As stated above, the foundation serves to protect the rights of the donor and make certain that private funds are kept separate from public finances. A contract specifying roles and responsibilities of both the institution and the foundation formalizes an arm's-length relationship. At the same time, the contact gives donors confidence that the institution is serious about securing private resources and values the donors who provide them.

In sum, simplicity and predictability in funding budgets for fund-raising are essential for all foundations, but especially important for those with emerging programs.

Pros and Cons of Key Revenue Sources

College and university respondents in the survey reported using a total of 20 sources of revenue to fund their fund-raising budgets.

Here are the sources and the number of foundations (institutions) that reported using each:

Unrestricted gifts	28
Endowment management fees	25
Income on daily cash balances	19
Employees on institutional payroll	17
Administrative fees assessed on new gifts	12
Alumni funds	11
State and institutional funds budgeted for fund-raising operations	7
Contract for services	6
In-kind from the institution	6
Academic unit charge backs	5
Endowment designated for fund-raising	3
Real estate sales	1
Real estate leases	1
Unrestricted endowment	1
Special events	1
Designated gifts	1
Endowment growth	1
Foundation reserves	1
Overhead added for specific projects	1
Entrepreneurial projects	1
Unstated	4

The five sources that appear to have the greatest capacity for providing significant increases in fund-raising budgets are:

- institutional support—a category that includes several sources: state and/or institutional funds, contracted services, employees on institutional payroll, in-kind institutional support (usually space and various services), and school, college, departmental or project charge-backs;
- unrestricted gifts;
- endowment management fees;
- income on daily cash balances; and
- fees assessed on gifts.

Each source of funding has its proponents and its opponents. The strengths and liabilities of each are discussed below:

Institutional Support

Proponents of institutional support for fund-raising and/or foundation operations point out that many institutions have provided such support historically. This is true especially for programs in start-up or emerging status. Using institutional funds conveys to donors the message that the institution is making an investment in its own future. Moreover, it can ensure a close link between the institution's priorities and the foundation's fund-raising efforts.

Institutional funds can be the most readily available and predictable because they come through the regular budget cycle. On the other hand, they can be vulnerable to cutbacks when institutions find their budgets squeezed by state funding constraints, especially during economic downturns. When fund-raising budgets are

compelled to compete with academic programs and student affairs for scarce resources, they usually do not fare well, despite the potential return on the investment they represent.

As foundation fund-raising grows, too heavy a reliance on institutional funds can put the autonomy of the foundation in question, threatening to weaken the shield between private gifts and public funds as well as the protection of donors' rights. An arm's-length written agreement between foundation and institution, by which the foundation contracts to perform fund-raising and other services in return for the institutional support, can lessen tensions and maintain an appropriate separation between the two entities.

Such an agreement should clarify and specify:

- institutional and foundation roles and responsibilities,
- fund-raising priorities,
- expectations of fund-raising productivity, and
- donors' rights.

Agreements that spell out responsibilities and performance expectations help maintain the internal focus required for successful fund-raising. They hold the fund-raisers accountable for results and inject a sense of urgency for performance and meeting deadlines. Large universities often "distribute" some of the primary fund-raising responsibility among colleges or other academic units and assign foundation fund-raisers to them. These fund-raisers are pulled between reporting to a particular dean or director and to a central fund-raising executive, and this tension is compounded by the use of institutional funds to support fund-raising. Fund-raising staff may easily be diverted into other administrative responsibilities and tasks that, while ever important, do not lead to the raising of money. Formal agreements can mitigate the tensions inherent in this practice.

Unrestricted Gifts

Unrestricted gifts can be another easily accessible source of revenue to support fund-raising budgets. Aside from lessening the pressure to derive fee revenues from restricted funds, use of unrestricted gifts can be presented as a reinvestment that multiplies fund-raising potential. That is, every unrestricted gift dollar reinvested into fund-raising activities may generate an additional four, six, ten, twelve, etc., gift dollars for the institution.

At institutions with more distributive fund-raising operations, it is relatively common for schools and colleges to use unrestricted gifts to help finance both their fund-raising and alumni relations efforts. Such use allows the academic units to be more entrepreneurial and more in control of their fund-raising destiny. Such entrepreneurial initiatives, however, can create tensions among academic leaders concerned about conflicting priorities and overall management of fund-raising.

Opponents of using unrestricted gifts point out that fund-raising efforts on behalf of pub-

lic colleges and universities have historically not produced large numbers of such dollars. Public institutions, as opposed to their private counterparts, tend to attract a very high percentage of donor-restricted gifts and a very low percentage of unrestricted gifts.

In any event, over the long term, unrestricted gifts do not produce the budgetary support needed for quantum increases in fund-raising productivity. Moreover, their use short-circuits an early opportunity to develop good donor relationships through effective gift stewardship. Foundations that elect to use unrestricted gifts to support their fund-raising should consider using only a portion for this purpose while targeting the balance toward important, highly visible projects that will interest donors and engage them more intimately with the life of the institution.

Endowment Management

For college and university foundations with large endowments, use of a modest endowment management fee can provide a stable, substantive source of budget revenue. Since donors are accustomed to paying management fees for their own investments, they usually are not disturbed by seeing reasonable fees applied to their gifts. Use of the endowment management fee also stimulates effective fund-raising—the more endowment the foundation raises, the more fee revenue it has to spend on fund-raising. Few, though, use this fee as their sole source of fund-raising budget support.

At the same time, endowment management fees must be kept quite modest lest they negatively affect the growth of the endowment or eat into the returns used for payouts to endowment beneficiaries. Surveyed foundations that use the endowment management fee to support fund-raising generally reported fees of 0.5 to 1.0 percent of the endowment value.

At such percentage rates, management fees can provide enough revenue to support quantum leaps in fund-raising budgets only when endowments are enjoying extraordinary growth.

Income on Daily Cash Balances

Mature programs derive substantial support for fund-raising budgets by using the income on daily cash balances—that is, the interest earned through short-term investment of gift funds pending their expenditure or transfer to the long-term endowment pool. Those using income on daily cash balances caution that this source of budget revenue is interest-sensitive and, especially when interest rates are low, should be projected conservatively. They also note that this is not a substantial revenue source for start-up and emerging programs with smaller cash balances.

While relatively low-profile, the use of income on daily cash balances to fund the fund-raising budget also has its critics. Foundations that use income on daily cash balances to support various administrative operations might be reluctant to have it earmarked just for fund-raising costs.

Beneficiaries of gift funds also may argue that income earned on such funds as they await expenditure should accrue to them. Academic units that receive gifts directly may be tempted to set up separate accounts and retain income on cash balances. Such practices complicate gift tracking, stewardship, and reporting—especially when the foundation is unaware of the gifts' existence.

Administrative Fee on Gifts

Opponents contend that assessing an administrative fee on new gifts, sometimes called a "gift tax," has a deleterious effect on relations with donors who want the full value of their gifts to benefit the intended purposes. Critics also point out that assessing such a fee causes problems within the institution because beneficiaries likewise want to receive the maximum value of these gifts.

When such fees are applied to gifts for a capital project itself, other funds must be found to make up the difference—either that, or the total price tag for the project must be inflated to include the fee.

Proponents say that as long as the foundation is "up-front" in disclosing and explaining such a fee donors will understand the need to invest some of the gift funds into raising more funds. Proponents add that the fee is easy to calculate, can be accounted for in advance, and can be justified as a cost of doing business.

Survey respondents who applied such a fee on new gifts reported rates of approximately 5 to 8 percent. Only one foundation applied such a fee to all new gifts, and only one had a fee over 8 percent.

While there were initial concerns from both faculty and donors, respondents said, these stakeholders were reasonably satisfied with results so long as the fee's existence, its amount, and its use were made clear in advance to all concerned. They said this funding source was predictable, rewarded successful fund-raising, and provided a substantial revenue stream.

One foundation with a mature program assessed an administrative fee on all types of new gifts. Most used differing methods for current-fund, endowment, and capital gifts, respectively. On current-fund gifts, they usually assessed the fee up front and passed along the balance to the beneficiary. They often "parked" endowment and capital gifts for six months and applied the income generated during that period to the fund-raising budget. When such gift funds had to be used immediately, or when the donor was adamant against "taxing" the gift, provisions were often made for an academic unit to pay the fee from other sources.

Administrative fees are complex to manage effectively and require clear, articulate, up-front presentation to all involved. While not popular, they generate substantial revenues and reward success in fund-raising productivity.

Finding the Right Mix

While every institution and foundation must recognize that it costs more money to raise more money, each must find for itself the right revenue mix for its own fund-raising budget.

Each must understand the pros and cons of the individual revenue sources it has available, and assess which sources—in particular, which mix of sources—best fit its specific situation.

Five guidelines can help in the decision making process:

- simplicity: The simpler and more understandable the revenue model, the more acceptable it will be to faculty, administrators, volunteers and donors.
- predictability: Fund-raising staffs, particularly at the executive level, should focus on building and managing the fund-raising program and raising money. Predictable revenue sources to support the fund-raising budget can help minimize the distraction of seeking and securing needed resources. When quantum increases are part of the equation, of course, much institutional and executive time may have to be spent on developing effective additional revenue streams.
- visibility: The methods used to fund the fund-raising budget should be openly discussed and clearly communicated with the foundation's board, other volunteers, and staff; with the institution's administrators, deans and key faculty, and governing board; and with donors and others with a direct interest. Under optimal conditions, interested parties should have an opportunity to participate in developing the revenue budget.
- accountability: Budgets should be clearly linked to fund-raising productivity, and results communicated on a timely basis. Expectations for fund-raising productivity should be clearly defined, measured, and accounted for. Financial relationships between institution, foundation, and fund-raising staff should be clearly articulated and regularly reviewed.
- contemporaneity: As fund-raising programs mature, some sources of budget revenue may become more appropriate and effective, and others less so. Foundation boards and executives should monitor their program's growth and regularly assess their particular funding model and its potential alternatives.

These guidelines reinforce the fact that while start-up and emerging foundations must rely more on institutional support to operate their programs, they should develop additional resources as they mature. To create an effective fund-raising organization, fund-raisers should become part of the foundation's budget as soon as feasible. Foundation employees may be paid directly by the college or university (which may save some fringe benefit costs). Fund-raisers may also be placed on the foundation payroll,

even though the expense may be subsidized in part with institutional funds through a contractual relationship.

For a time, non-personnel expenses in the foundation's budget (such as office space, services, etc.) may also be supported through institutional resources. Because additional sources of revenue will certainly be needed as the start-up or emerging foundation and its fund-raising program grow, the foundation from the beginning should support as much of its operating budget as possible through one or more non-institutional sources.

The start-up and emerging foundations in this study tended to use unrestricted gifts, unrestricted endowments, a "tax" (administrative fee) on new gifts, or a percentage fee on endowments to generate additional funds. As has been noted, the advantage of these sources is that they can provide immediate funds. The downside is that they reduce the impact that the affected gifts might have on institutional programs. As fund-raising productivity grows, a percentage fee on all incoming gifts and a percentage fee on endowments offer increasingly fruitful sources of budget funding.

The fact is that there are no simple solutions to funding increased fund-raising budgets. Finding one source of funding to fund quantum increases without alienating donors or raising tensions is very difficult. Rather, foundation executives and board members should concentrate on finding a stable multisource model that will work for a five- to seven-year period—giving fund-raisers essential time to focus their energies on the fund-raising agenda.

The mix in the multisource funding model will change over time. For example, administrative fees may be raised to higher than normal levels for set periods, with reductions scheduled for later in anticipation of increases in fund-raising productivity and eventual slowing of the growth rate. Colleges and universities may also see the need to dramatically increase their institutional support of the foundation's fund-raising budget when they decide to seek quantum increases in fund-raising productivity. Whatever the model, funding the fund-raising budget for the institutionally related foundation must be an ongoing priority for institutional and foundation leadership.

The Fund-Raising Cost Index

In the interest of accountability, it is essential that foundations measure their fund-raising budgets against the fund-raising results that this spending produces.

This study refers to the amount that the foundation (and its college or university) reports raising as its fund-raising productivity, and the ratio between what it reports spending to raise this money and the amount it raises as its Fund-Raising Cost Index (FRCI).

Nationally, for all nonprofit organizations, an FRCI up to 0.35 (spending 35 cents to raise one dollar) is considered acceptable. Most colleges and universities and their foundations have lower FRCIs. In the survey supporting this study, respondents reported FRCIs between 0.04 and 0.25 (spending between 4 cents and 25 cents to raise one dollar). FRCIs between 0.10 and 0.20 seemed to be most common.

The wide range of FRCIs has a variety of causes. Most relate to the characteristics that differentiate start-up, emerging, and mature organizations. In addition, respondents may have calculated their fund-raising costs in different ways since the survey did not specify a formula.

Start-up programs with few or no full-time staff may show a very low FRCI because they spend very little money to raise money. At the same time, mature programs that are highly effective in raising major gifts (often $1 million or more) may also have very low FRCIs: while they spend a lot on fund-raising, they have high fund-raising productivity because of numerous very large gifts. The 16 mature fund-raising operations in this survey reported a median FRCI of 0.085—that is, at the median they were spending 8.5 cents to raise one dollar.

Start-up foundations that are actively developing annual funds (which produce relatively small gifts) may have higher FRCIs. Donor acquisition programs have an inherently higher FRCI because initial gifts may be modest and major-gift income has yet to develop.

Start-up, emerging, and mature foundations that set out to make exceptional gains in fund-raising productivity may have very high FRCIs at the outset since major up-front investments in fund-raising typically precede increases in fund-raising productivity by two to three years. Additional budgetary investments of 4 cents to 25 cents can be anticipated for each new dollar raised. Mature foundations with strong major gifts programs already in place and successful campaign histories will tend toward the lower end of the FRCI range.

In the longer-term interests of lowering their FRCIs, start-up and emerging foundations should launch major-gift fund-raising as early as possible—recognizing, of course, that cultivating prospective major donors may take time.

In summary, three dynamics influence the FRCI:

- New fund-raising programs and established programs gearing up for a quantum expansion of fund-raising productivity often cost

more to operate per dollar raised than do established, stable programs;

- Fund-raising programs designed to acquire a broad base of new donors and upgrade existing donors are more costly per dollar raised, at least in the short run, than already productive major-gift programs; and
- Investments in increased fund-raising usually precede productivity gains by two to three years.

Fund-Raising Costs as Investments

Foundations are, in effect, businesses. Productive and well run, they provide an essential margin of excellence for the public colleges and universities they serve.

Through effective fund-raising foundations take advantage of the philanthropy growth market, and through increased fund-raising productivity, they leverage scarce resources, volunteer time, and public opinion for the good of the institution and its constituents.

While discussion of the FRCI treats fund-raising costs as though they were operating expenses, the revenues that cover them should be viewed as investments rather than operating revenues. When institution and foundation leaders make their case for increasing fund-raising budgets to achieve quantum increases in fund-raising productivity, they can point to increased productivity as the return on investment.

Return on investment is a powerful incentive for supporting the costs of fund-raising. It becomes even more powerful when returns take the form of capital gifts or endowment gifts, because the investments thus buy both time and perpetual philanthropy. With college and university budgets stretched and demands for accountability and cost efficiency high, investing in stepped-up fund-raising can be especially appealing because philanthropy has become a growth market, with productivity growing at rates much higher than increases in public funding.

As noted above, survey respondents reported FRCIs ranging from 0.04 to 0.25. A foundation with a FRCI of 0.04 (spending 4 cents to raise $1) would in effect have a return of $25 for each $1 invested. Even one with a FRCI of 0.25 (spending 25 cents to raise $1) would receive $4 for each investment of $1. As for the mature foundations, a median FRCI of 0.085 would mean a return of nearly $12 per invested dollar. The appeal of such returns should be self-evident.

Conclusion

Whether fund-raising programs are start-up, emerging, or mature, institution and foundation leaders are eager to increase fund-raising productivity dramatically.

Many institutions, even when not in a campaign, expect compound growth rates of up to 15 percent. Such rates are nearly double the average annual growth rate for giving to education over the past five years and nearly triple the annual growth rate for all philanthropy during the same period. (Those average annual growth rates were 8.54 percent and 5.39 percent respectively, according to *Giving USA* 1998, an annual publication of the American Association of Fund-Raising Counsel.)

For foundations to effectively increase fund-raising productivity by such orders of magnitude, they must have these critical assets:

- a full-time staff devoted to full-time fund-raising;
- an institutional president who can exert leadership;
- foundation board members willing to be volunteer fund-raisers;
- fund-raising operations that are funded and developed based on best practices;
- stable funding from multiple sources to support the foundation's fund-raising and related operations;
- discipline and commitment; and
- a clear definition of the foundation's mission.

Particularly for the start-up or emerging foundation, staff and board must realize that fund-raising is hard work and often far from predictable. Fund-raising requires discipline, insight, perseverance, and resources. The emerging foundation may be tempted to raise funds on a shoestring, with a part-time executive or fund-raiser. But successful fund-raising is a full-time pursuit, and the foundation must be prepared from the beginning to assign full-time staff to raise money and enlist volunteers to assist in raising money. Fund-raisers must be well supported and should have clear performance expectations.

Tomorrow's most successful foundations will be those best able to convince their institution, their volunteers, and their donors that increased spending for fund-raising is not an expense, but an investment.

Raising more money requires more staff, more infrastructure, and support for meeting higher operating costs. Unfortunately, base budgets or reserves rarely meet the costs of attaining quantum increases in fund-raising productivity. The requisite investments must usually be made two to three years before they pay for themselves in increased productivity.

Start-up and emerging foundations will have a particularly difficult time attaining accelerated growth rates until they mature to the point of having a growing cadre of donors who make major gifts. Developing depth in major gift activity should be the number-one priority of these foundations.

In the future, finding budget resources to support accelerated fund-raising will continue to present a daunting challenge. More and more foundations will have to adopt a multisource model to produce the requisite revenues. Start-up and emerging foundations in particular will rely on institutional support and administrative fees on new gifts to provide the revenues they need. Mature foundations will be challenged to diversify their funding to continue their growth.

Foundation leaders will have to become increasingly adept at negotiating contracts for services that can assure them predictable, stable revenues from the institution in return for greater accountability and cost effectiveness. Foundations and institutions alike will have to become more sophisticated about the relationship between fund-raising spending and fund-raising productivity.

Most larger foundations rely on three or more revenue sources to meet quantum increases in their fund-raising costs. While foundations and institutions may look for more individual or idiosyncratic sources of revenue, the basic sources—institutional resources, administrative fees on gifts, endowment management fees, unrestricted gifts, and income from cash balances—provide the greatest potential.

Tomorrow's most successful institutionally related foundations will be those best able to convince their institutions, their volunteers, and their donors that increased spending for fund-raising is not an expense, but an investment. Foundations should make a convincing case that they are "profit centers" rather than cost centers, and demonstrate with uncommon accountability that their increased fund-raising productivity directly aids the college or university in realizing its mission.

Appendix A: Data from the Study

Twenty-four public institutions and foundations—representing four-year colleges and universities, as well as community colleges with reputations for effective fund-raising—were chosen to test and refine the survey questionnaire and to provide a baseline of data on which the larger sample would build. Once the survey instrument (Appendix A) was refined, 60 additional institutions were drawn as a random sample to receive the questionnaire. The selection process was structured to ensure a proportional representation of colleges and universities, including Research I and II institutions, and community colleges with national geographic distribution.

A total of 48 of the entire sample of 84 (57 percent) returned questionnaires. One questionnaire was set aside for lack of information and non-response to a telephone follow-up. (Participating institutions are listed in Appendix B.) A total of 42 of the 47 respondents participated in a follow-up phone call to clarify information submitted and to amplify their answers. Data were then organized to provide the basis for the conclusions and recommendations presented in this study.

(Data collected: Number indicates foundations or institutions responding to each definition or category.)

1. How is fund-raising organized at your institution?

Institution works jointly with foundation to direct and carry out fund-raising—17

Institution relies on foundation to direct and carry out fund-raising—10

Institution's central administration directs and carries out or coordinates fund-raising—10 (including one institution that does not have an institutionally related foundation.)

Combinations of the above—5

Institution sets policies and priorities for fund-raising and delegates implementation to foundation—4

Institution is just getting organized to formalize and carry out fund-raising—1

Institution has distributed fund-raising activities directed and carried out by various entities within the institution—0

2. How does your foundation interact with your institution?

With direction from the institution, the foundation is the fund-raising and asset managing arm of the institution—14

The foundation directs and carries out fund-raising. Funds are made available to the institution according to the foundation's policies—13

The institution raises the funds. The foundation manages the assets—9

The foundation and the institution coordinate their respective fund-raising efforts—4

Some combination—3

No response—2

No foundation—1

3. Is your institution in a campaign? Has your institution completed a campaign?
One campaign finished—15
In first campaign—13
In or completed second campaign or more—2
No campaign history—6
No report—1

4. Of the 24 institutions currently conducting campaigns what is your campaign goal?
$250 Million or more—5
$100 million to $250 million—4
$25 million to $100 million—4
$10 million to $25 million—5
$1 million to $10 million—6

5. What is the size of your endowment?
$250 million or more—5
$100 million to $250 million—10
$50 million to $100 million—5
$25 million to $50 million—3
$10 million to $25 million—11
$1 million to $10 million—9
Less than $1 million—4

6. How many dollars did you raise in 1997?
$100 million or more—1
$75 million to $100 million—3
$50 million to $75 million—1
$25 million to $50 million—6
$10 million to $25 million—6
$5 million to $10 million—9
$1 million to $5 million—10
Less than $1 million—9

7. How much did your institution spend on fund-raising in 1997?
$5 million or more—3
$2.5 to $5 million—3
$1.5 million to $2.5 million—5
$1.0 million to $1.5 million—5
$500,000 to $1 million—2
Less than $500,000—21
No report or could not be determined—7

8. How much did your foundation spend on fund-raising in 1997?
$5 million or more—2
$3 million to $5 million—3
$1.5 million to $3.0 million—0
$1.0 million to $1.5 million—3
$500,000 to $1 million—6
Less than $500,000—26
No report or could not be determined—7

9. How much did the institution and foundation combined spend on fund-raising in 1997?
$10 million or more—1
$5.0 million to $10 million—2
$2.5 million to $5.0 million—8
$1.5 million to $2.5 million—6
$1 million to $1.5 million—7
$500,000 to $1 million—2
Less than $500,000—15
No report or could not be determined—4

10. How many revenue sources do you use to fund the operating budget?

Eight or more sources—1
Three to eight sources—32
Two sources—6
Reported single source but phone interview identified other sources—4
Single source—3

11. Have the revenue sources funding your operating budget changed in the last five years?

Yes—20
No—24
No response—3

12. Are you satisfied with the sources of funding?

Very satisfied—21
Satisfied—11
Somewhat satisfied—8
Dissatisfied—4
Very dissatisfied—1
No response—2

13. What role does your institution's chief executive play in setting the foundation budget?

No role—14
Input-—12
Small input—11
Major input—8
No report—2
Sets the budget—0

14. What role does your foundation board play in setting the foundation budget?

Sets the budget—16
Major input—14
Small input—7
Input—5
No role—1
No response—4

15. When was your foundation formed?

1990s—1
1980s—5
1970s—18
1960s—10
1950s—5
1940s—2
1930s—2
1920s—1
No foundation—1

16. Why was your foundation formed?

To encourage private giving—22
Initiated by volunteers—6
No response—6
To develop scholarship funds—4
In response to a private gift—3
In response to legislative action—3
Regents requirements—1
To run auxiliaries—1
Have no foundation—1

Appendix B: Colleges, Universities, and Institutionally Related Foundations Responding to the Survey

Ball State University Foundation, Ind.
Broward Community College Foundation, Fla.
California State University Trust Foundation
California State University/Northridge Foundation
California State University/Bakersfield Foundation
Camden County College, N.J.
Delta College and its Foundation, Mich.
East Carolina University, N.C.
Foundation of the University of Medicine and Dentistry of New Jersey
George Mason University Foundation, Va.
Georgia State University Foundation
Illinois State University Foundation
Indiana University Foundation
Lake Land College Foundation, Ill.
Lewis and Clark Community College Foundation, Ill.
Long Beach City College Foundation, Calif.
Metropolitan State University Foundation, Minn.
Miami University Foundation, Ohio
Michigan State University Foundation
North Carolina Agricultural and Technical State University
Northern Arizona University Foundation
Oakton Community College Foundation, Ill.
Oklahoma State University Foundation
Rhode Island College Foundation
San Juan College Foundation, P.R.
State University of New York/Geneseo Foundation
Stony Brook Foundation, Inc., N.Y.
Thomas Nelson Community College Foundation, Va.
Tyler Junior College Foundation, Texas
University of Arizona Foundation
University of California/Riverside Foundation
University of California/San Diego Foundation
University of Colorado Foundation
University of Idaho Foundation
University of Maine Foundation
University of Nebraska Foundation
University of New Hampshire Foundation
University of New Mexico Foundation
University of North Carolina/ Greensboro Foundation
University of Southern Indiana Foundation
University of Texas, Austin
University of Texas/Pan Am Foundation
Valencia Community College Foundation, Fla.
Virginia Commonwealth University Foundation
Virginia Tech University Foundation
Volunteer State College Foundation, Tenn.
Wor-Wic Community College, Md.

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